

REGION 5

2043945414

I. MARKETING CONDITIONSVirginia Slims Ultra Lights

Distribution at the wholesale level is 100%, with all direct accounts having accepted both packings of the product. A cross section of wholesale accounts within the Section position the brand at a share of .54 for both packings, with the Menthol slightly ahead of the Regular product.

Major chain accounts agreed to force both regular and promotional product for use in a variety of displays.

Division Managers report retail distribution at 96%, with substantial in-store inventories of both packings.

The sampling program has been well positioned and all part-time personnel have been hired in designated areas.

Benson & Hedges Lights Box

Response to our initial introductory presentations was surprisingly positive in all areas of the Section, including those traditional non-box markets. In the major account category, only McCarty-Holman and Time Saver remain uncommitted.

Our retail prebooking activities have resulted in 20- to 30-carton forceouts to the supermarket trade, both chain and independent, and approximately 10 cartons of forced out product to the convenience store trade within the Section. Approximately 60% of all Section accounts have allowed prebooking of product.

Cambridge Full Flavor

We continue to follow up with presentations to McCarty-Holman and Schwegmann's, as they remain the only two uncommitted major accounts to accept the product. Distribution of the brand continues to show increases and is approximately 80% in the Section's major accounts, chain and independent.

Our higher level of distribution and the wholesale couponing of product resulted in significant sales increases in many of the Section's markets. Currently, in the northern Mississippi area all packings carry a 2.5 share of market. It was unfortunate that supplies of coupons were unavailable, as our momentum was definitely affected. Equally, the unavailability of package and carton labels affected our merchandising function in-store.

I would continue to recommend the removal of expiration dates from all coupons. Such an action is needed to prevent the needless destruction of existing inventories of coupons by our Sales Force and/or retail personnel.

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Cambridge Full Flavor (cont'd)

On more than one occasion, our accounts have requested this action after being informed that any outdated coupons would still be honored. They would prefer that we simply remove the expiration date, as it would fit in much better with their manner of doing business.

PHILIP MORRIS/INDUSTRY

To date, there have been no major shifts in volume trends within Section 51's direct accounts. Virginia Slims and Cambridge remain two strong positives, largely as a result of the successful introduction of new packings.

Total business within the Section continues to center on generic product, with units moved in direct relation to our distribution and couponing efforts.

II. MAJOR COMPETITIVE DEVELOPMENTSAMERICAN

American's efforts in gaining merchandising space and additional rows on all Value Centers have been quite successful. Their efforts continue in this area, as they are adding rows for additional inventories of Lucky Strike and Malibu.

Malibu: \$3.00 on-carton coupons; 30¢ on-package coupons.

Lucky Strike: \$2.00 on-carton coupons.

The Pall Mall Filter introduction continues, with Kings and 100's being offered in a wide array of displays, including 2-for-1's as part of their 20% gratis retail offer. One-dollar off coupons are attached to all 2-for-1 product, and all other product has \$2.00 on-carton coupons. We have also noted bonus payments of \$4.00 to \$10.00 per account for those account stocking regular product in conjunction with any 2-for-1 placements.

BROWN & WILLIAMSON

Movement of Capri fluctuates drastically from area to area throughout the Section. A wide variety of offers from promotional opportunities to 2-for-1's are being offered. We continue to note that without 2-for-1 support, sales decline dramatically.

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BROWN & WILLIAMSON (cont'd)

Viceroy, Belair and Raleigh continue to offer special promotional programs. These brands feature a \$2.00-off notice on the end flap of cartons, preprinted at the factory. The product is discounted off invoice to the wholesaler who, in turn, passes this \$2.00 off offer to the retailer. All packages are also preprinted at 20¢ off. Coupons are not involved and all rebates are handled through invoices or special retail discounts.

Falcon: One dollar on-carton coupons and two-for-one promotions. Retail activity also includes the payment of point-of-sale material at the rate of \$1.00 per poster.

LIGGETT

They continue to employ part-time personnel to coupon product at both wholesale and retail levels in all areas. Retail contact centers on those accounts above 300 cartons per week.

Their sales force is also working a new generic Class A brand in Regular and Menthol 100's. Inventories of this product have been seen in very limited quantities at wholesale accounts, with no promotional support.

All brands are being offered with \$1.00 on-carton coupons attached.

Twenty-five cent on-package coupons noted for EVE, L&M and Chesterfield.

Brass lighters are being offered with two-pack purchases of L&M, Lark, Chesterfield and EVE 120's.

LORILLARD

Section accounts have been informed that True Gold will be discontinued.

Kent: \$2.00 on-carton coupons.

True: \$1.00 on-carton coupons.

Couponing of Kent and True occurs only in supermarket accounts above 300 cartons per week.

Newport continues to offer \$2.00 on-carton coupons in conjunction with a wide variety of package "buy 1 - get 1 free" and lighter displays. The Newport mail-in offer for three \$2.00 coupons has also been identified in all areas throughout the Section.

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R. J. REYNOLDS

Doral: In select markets, continues to offer \$2.00 on-carton coupons. There is no consistency in this practice, as participation varies widely from area to area. We continue to see some 50¢ on-carton coupons, concentrated primarily in the Louisiana area. Contributing to the confusion is the further offer of a 30-carton display offering 15¢ off per carton on all Doral packings during September and October.

Century: \$2.00 on-carton coupons.

All accounts have been advised of their fall direct account incentive program (details have been forwarded to Region). Retail offer includes 15¢ per carton, with minimum 15-carton purchase and no maximums.

Activity on Winston Lights Box continues to diminish.

III. TRADE CLASSESWholesaleDistributor

Smaller distributors continue to find it difficult to conduct business within the Section as select larger accounts dominate the market. We expect further consolidations and closings, a trend which could place a great deal of pressure on our existing sales force, as our local headquarter distributors are either absorbed or closed.

Please refer to the S.A.M. Account Status section of this report for further comment.

Grocer

Please refer to the S.A.M. Account Status section of this report for additional information.

Vendor

Our Account Managers continue to present our Maxi Credit Vending program. During this reporting period, four additional vendors have been contracted, resulting in 300 additional machines under contract.

RETAILSupermarkets

Please refer to the S.A.M. Account Status section of this report for additional information.

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Convenience

Please refer to the S.A.M. Account Status report for further information in this area.

Sunshine Jr. Foods Mississippi District, Columbus, Ms. - Recent developments within this operation are evidence of the monetary commitment that R. J. Reynolds has demonstrated in obtaining overhead installations and exterior point-of-sale signage. -

The following offer resulted in the removal of Philip Morris Marlboro counter-balance signs ... 3-wide Doral Value Center, \$30.00; Doral counter display, \$7.50; counter display, \$19.00; road signs, two per store, \$25.00; pump toppers, \$2.00.

7/Eleven New Orleans District, New Orleans, La. (32 stores)

7/Eleven Baton Rouge District, Baton Rouge, La. (52 stores)

7/Eleven Shreveport District, Shreveport, La. (31 stores)

The addition of the Senior Account Manager positions within the Section has been productive in terms of the additional time that is now afforded our Area Managers to contact key districts such as 7/Eleven. It pleases me to report that we have identified the opportunity to present all local promotions at the District level, and that the authority exists at this level to authorize our programs. One exception would be new brands, which must and continue to be presented at the Regional Offices.

The above named accounts agreed to accept multiple forceouts of the Virginia Slims promotions.

The following Area Manager convenience accounts have accepted Marlboro Shopping Baskets: Kwik Pantry, Inc. (16 stores); C Stores of Louisiana (23 stores); Dandy Dan's Fast Stop (9); Evans Oil (5); Huber Oil (9); Rainbo Marketers (18), Shop Rite, Inc. (39); Speedy Tote (5); Wizard (32).

Drug

Please refer to the S.A.M. Account Status report for further information in this area.

Eckerd Drugs, Hammond, La. (166 Stores) - We continue to develop our opportunities within this account. Recent forceouts involving the acceptance of Virginia Slims Ultra Lights, B&H Lights Box and normal product promotions resulted in a total 12,000 cartons being forced to 166 stores.

We were also successful in obtaining authorization to test a 6-foot Maxi overhead merchandiser in their Ocean Springs, Ms., store. This merchandiser will be evaluated and compared to the RJR overhead already being tested to determine which merchandisers will be placed in other locations.

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Mass Merchandiser

No activity to report at this time.

Gas/Liquor

No activity to report at this time.

IV. SSM KEY ACCOUNT CONTACTS

Please refer to the S.A.M. Account Status report for further information regarding contact.

K&B Drugs	Sidney Besthoff III - President/CEO
	Steve Ferguson - Executive VP/Merchandising

Accompanied S.A.M. Thomas Kennard to conduct general Business Review and present Philip Morris pewter plate to Mr. Besthoff. We also discussed details of PM's commitment to supply custom fixturing for K&B counters. Mr. Ferguson advised that a decision would be forthcoming, following an upcoming trip by K&B executives to the Orient.

Baton Rouge Tobacco	Steve Shehane - President
	Keith Lemoine - Vice President

Accompanied Area Manager Catherine Marcotte to an outside activity and found the opportunity to overview our business in the Baton Rouge area. Local political affairs were also discussed and a commitment was secured to gain Mr. Shehane's and Mr. Lemoine's involvement against any increases in the Federal Excise Tax.

Cracker Barrel	Steve Graber - Merchandising Manager
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Accompanied Area Manager Catherine Marcotte to an outside function during which we discussed with Steve the possibility of fixturing additional Cracker Barrel stores with Philip Morris overhead merchandisers and obtaining additional exterior visibility through the use of our counter-balance program.

Eckerd Drugs	Larry Tucker - Division Manager
	Jerry Murch - District Merchandising Mgr

Accompanied Catherine Marcotte to discuss the introductory offers in support of Virginia Slims Ultra Lights and B&H Lights Box. Brands were accepted and forceout to all 166 stores was obtained. The potential to test PM overhead merchandiser was also overviewed and subsequently approved by Mr. Tucker.

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Imperial Trading Co Gerald Pelias - President

Accompanied SHA Jack Bowell to an outside function to overview PM's current level of business in the market with Imperial Trading, and continued to secure his commitment in both the political and product areas. Presentation was successful, as Mr. Pelias committed in both areas.

K&B Drug Norman Currier - Senior Buyer

Accompanied Thomas Kennard and Jerry Choyke to overview Famous Value Brands and the introduction of B&H Lights Box. Mr. Choyke's presentation on behalf of FVB was taken under advisement, and Mr. Kennard's presentation on B&H Lights Box was approved with line numbers pending. We also took the opportunity to discuss the special counter program and Mr. Currier agreed that a decision would be made subsequent to the trip to the Orient, or the next 2 to 3 weeks.

A&P Leon Marsh - VP/Merchandising
Ed Gatch - Director/Merchandising

Accompanied Thomas Kennard and Jerry Choyke to overview our Value Centers and Cambridge/Royale programs. This presentation was made as follow-up to two previous presentations made by Thomas. Mr. Marsh was present and had several questions regarding our programs. They were effectively answered, and tentative approval was secured for placement of our Value Centers beginning the week of September 28, 1987. Mr. Choyke's presentation regarding Royale was also taken into consideration, and it was agreed upon that product would be forced to all stores.

Schwegmann's Sam Levy - President
Antonio Cardet - Senior Buyer

Accompanied Jim Paddock for general Business Review to the Senior Executives of Schwegmann's. During the discussion, it was determined that the program which would be of the most interest to Schwegmann's at this time would be a 3-pack promotion offering PM products in a special blister type promotional package. We agreed to pursue the matter and obtain test packaging within the next two weeks for Mr. Levy's review. It was further agreed that if the packaging was in keeping with their idea, Philip Morris products would be placed in self-service positions of high visibility in all locations.

2043945421

IV-A. S.A.M. ACCOUNT STATUS REPORT

I. SENIOR ACCOUNT MANAGER STATUS REPORT - TOMMY THOMPSON

A. IMPERIAL TRADING CO.

1. Virginia Slims Ultra Lights

Accepted. Current 1.1 market share.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, line numbers provided via personnel.
Product will be in warehouse on September 24, 1987.

4. Recommendations

Continue to allow Imperial Trading Co. to direct force promotional stock (2-for-1 product) to select chain accounts. This program has initially been just designated as a test and will be closely monitored. As has always been our concern, we will maintain complete control and will direct ship this promotional product where we feel is beneficial to Philip Morris. Accounts we have initially staged as direct shipped accounts are Eckerd's Drugs, A&P and National Supermarkets.

B. MALONE & HYDE

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, line numbers provided to field personnel,
product available in warehouse September 28, 1987.

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C. TIME SAVER STORES, INC.1. Virginia Slims Ultra Lights

Accepted. Total Virginia Slims movement, 280 cartons per week, based on Time Saver total sales of 26,000 cartons weekly. Currently, Virginia Slims Ultra Lights has a 1.0 market share.

2. Cambridge Full Flavor

Pending due to low sales of Cambridge Lights product.

3. Benson & Hedges Lights Box

Accepted, 10 carton force out week of October 15, 1987, 2-for-1 display accepted. Delight will force promotional stock.

4. Recommendations

Recently Mike Murphy, Marlboro Brand Manager, contacted me regarding placement of electronic advertising panels in Time Saver Stores. Mike's comments concerning the expense of the electronic advertising panel was that no additional gains were available to us at this time. Currently we do have the M-Series Displays in place and much better than average track record of new brand acceptance. As I expressed to Mike, it was my feelings that the electronic advertising panel in Time Saver would be instrumental in gaining Philip Morris primary advertising privileges at this point. It was my recommendation that if the electronic advertising panel could not stand on its own merit, possibly we could tie in an additional advertising panel on the gas pumps, giving us an interior advertising piece as well as an exterior advertising piece. It was also my recommendation that we place this electronic advertising piece in Time Saver Stores, due to limited advertising privileges in New Orleans, LA.

D. THE NATIONAL SUPERMARKETS/THE REAL SUPER STORE1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, 10 carton force scheduled the week of October 5, 1987.

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4. Recommendations

Recently I met with Jay Jeffers, Merchandiser of National Supermarkets, and expressed my concern to the low product movement of Player Lights 25s. It was then my recommendation that we pull this product from the Price Value Centers and cut this inventory; thereby, allowing additional space for increased inventory for Cambridge products. Jay was pleased with this proposal and expressed mutual concerns; therefore, at this time Player Lights 25s is being removed from the Value Center.

E. JUNIOR FOOD MART OF AMERICA

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Rejected.

3. Benson & Hedges Lights Box

Pending.

F. GREAT SOUTHERN MERCANTILE

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, 10 carton force out scheduled week of October 5, 1987 to be followed by buy-one/get-one-free program first week of November.

4. Recommendations

Don Warren, Director of Operations, Great Southern Mercantile, has expressed concern that only 17 of his 45 stores have the Philip Morris cigarette sign which Market Place Graphics provides. It is my recommendation that we cautiously pursue placing this sign in any additional stores due to a review of the store list it appears that these stores currently are not displaying our signs are in extremely low populated areas. All of this information will be submitted to Jim Thompson, New York Office.

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G. LEWIS GROCERY1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, shipment to arrive September 25, 1987.

H. McCARTY HOLMAN1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Pending.

3. Benson & Hedges Lights Box

Pending.

4. Recommendation

It has become of major importance to McCarty Holman due to recent increases in new product introductions that they must be very careful in acceptance of these new brands due to excessive expense of placing a new item. I am working closely with Buddy Marsailles, Buyer for McCarty Holman, in acceptance of Cambridge Full Flavor. It was my recommendation that at this time with generic sales increasing as they are in the central Mississippi area that his money would be better placed in Cambridge Full Flavor rather than Benson & Hedges Lights Box.

I. McLANE SOUTHERN1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

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3. Benson & Hedges Lights Box

Accepted, shipment week of September 24, 1987, line numbers have been provided to all field personnel.

I. SENIOR ACCOUNT MANAGER STATUS REPORT - THOMAS KENNARD

A. SCHWEGMANN GIANT FOODS

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Not accepted due to continued slow sales of Cambridge Lights.

3. Benson & Hedges Lights Box

Accepted.

4. Recommendations

Will present to Antonio by October 19, 1987 proposal for split fixturing with Philip Morris 3 x 3 end caps in 10 of their stores. We are also working on a blister pack promotion with Schwegmann. We have received authorization to produce this blister pack on a local level and implement the program with Schwegmann handling all the details locally. By October 31, 1987 we should have enough information to represent to Sam Levy, President of Schwegmann and Antonio Cardett, Buyer of Schwegmann.

B. A & P SOUTHERN GROUP

1. Virginia Slims Ultra Lights

Accepted, in addition to A&P has accepted Virginia Slims 2-for-1's, Virginia Slims Book of Days and Virginia Slims Tote Bag promotion.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, along with Benson & Hedges Lights Box 2-for-1.

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4. Imperial Trading Co.

Will force out 2-for-1 products on the Virginia Slims Ultra Lights and the Benson & Hedges Lights Box for A&P.

5. Value Centers

A&P has accepted our proposals on the Value Centers at the present time, Ed Gatch is matching 56 locations for seven-wide and four-wide placements. In addition to these placements, we are working on a prototype Value Center that can be used in their non self service stores; therefore, having Value Center placements in all 77 locations.

6. Recommendations

Will follow up with Ed Gatch prior to October 31, 1987 on re-alignment of our carton fixture payments in hopes of increasing Philip Morris rows by an average of four rows per store on 12 of their smaller fixtures. In addition to, will increase payments on fixtures where Philip Morris presently has over 100 rows. This re-alignment of our contract will increase A&P's payments approximately \$5,400 and increase Philip Morris' rows in 12 locations to approximately 80 rows per fixture.

C. K & B DRUGS

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted, in addition to additional product above allocation has been ordered so that each store will receive a force out of five cartons of each.

4. Plan B/Maxi-5 Combo Display

Norman Courier is going to push the issue of our Maxi-5 Combo Display with Steve Fergusson, Vice President of Merchandising, prior to October 15, 1987 in hopes of speeding up K&B's acceptance of this Display.

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5. Mini-Counter Balance Signs

Due to several complaints from customers having tripped or bumped into Mini-Counter Balance Signs both Philip Morris and RJ Reynolds, K&B has decided to have all signs removed from their store locations. As a result of this, I have discussed with Norman some type of signage that may be placed in their windows next to their front doors or on the poles outside their front door. He is very receptive to this and I will follow up with him by October 15, 1987.

D. WINN-DIXIE

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted.

4. Value Centers Maxi B-4's

Winn-Dixie to date, has not made a decision on presentations for Value Centers in each of their locations in addition to Maxi B-4's in their non self service stores. Will follow up with Henry Archenbaux, Buyer, during October as to the results of these proposals. In addition, will present to Henry new plan-o-grams for increasing Philip Morris rows on their current fixtures.

II. WHOLESALE ACCOUNTS

A. HARRISON COMPANY

1. Virginia Slims Ultra Lights

Accepted.

2. Cambridge Full Flavor

Accepted.

3. Benson & Hedges Lights Box

Accepted.

2043945428

B. CONCO FOODS

1. Virginia Slims Ultra Lights
Accepted.
2. Cambridge Full Flavor
Accepted.
3. Benson & Hedges Lights Box
Accepted.

C. MALONE & HYDE, MONROE, LA

1. Virginia Slims Ultra Lights
Accepted.
2. Cambridge Full Flavor
Accepted.
3. Benson & Hedges Lights Box
Accepted.

D. MALONE & HYDE, LAFAYETTE, LA

1. Virginia Slims Ultra Lights
Accepted.
2. Cambridge Full Flavor
Accepted.
3. Benson & Hedges Lights Box
Accepted.

2043945429

V. MERCHANDISING PROGRAMSPLAN A

Our Division Managers continue to work individually with all Sales Representatives in evaluating Philip Morris carton space. To date, in the independent segment, 20% of Plan A accounts have been re-signed and reset. Chain accounts have received presentations at both the S.A.M. and Area Manager levels regarding our proposals in this area. Follow-up contact is being maintained on a month-to-month basis at the headquarter level.

We continue to be concerned with the requirement for 50% of space in Marlboro. A review of our share-of-market data brand by brand would indicate that 40% Marlboro space is an ample allocation in Section 51, to include a significant amount of backup merchandise. It would be our recommendation that we revert to the 40% figure, as it can protect the other rows contracted so as not to create distribution gaps and unavailability of product in the Benson & Hedges, Virginia Slims and Merit areas.

PLAN A-1

We continue to receive our usual fine response to the Virginia Slims Book of Days A-1 promotion. It is the general consensus among most accounts that they prefer this particular promotion for cartons rather than packages.

PLAN A/M

Several key convenience operations such as 7/Eleven's Shreveport, Baton Rouge and New Orleans Districts and Super Stop of Meridian have received A/M presentations. Comments were favorable; results remain pending.

Value Fixtures

Two recent chain successes in National Supermarkets/New Orleans and A&P/New Orleans have assisted us in repositioning this program with our major accounts.

Local Division Managers continue to report that their efforts in the independent sector have encountered a great deal of opposition from R. J. Reynolds, as they are proposing and paying additional dollars as well as installing a wide variety of fixturing to meet a given account's needs. To date, in many areas our follow-up contact has been unsuccessful and we are continuing to evaluate the program to determine our exact needs to secure placements in this area.

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PLAN B/M

All areas report increases in the installation of our larger units in our higher volume ranges, as well as the development of our positioning to prime in approximately 40% of those locations.

PLAN BV

No activity to report at this time.

VI. SECTION ACTIVITIES

- . Our entire Management group has been advised of the need to evaluate warehouse inventories of all items. Although our most recent report indicated excesses in many areas, P.O.S. orders are now carefully evaluated to insure that we are moving product within the Section before ordering from outside the Section. We expect to see further reductions in these items in the coming month.
- . All management levels are addressing our needs in the area of Plan A and evaluating our space needs per row gap analysis to insure sufficient rows in all accounts. All chains have been contacted and presented; results pending at this time. In the independent segment, 20% of accounts have been signed to date.
- . Follow-up activity continues in the area of Virginia Slims Ultra Lights and B&H Lights Box to insure complete understanding and acceptance of related promotional opportunities and displays.
- . All management contacts are presenting our Value fixturing and Value programs.
- . Where available, coupons are being used at headquarter level to increase the movement of our Value brands.
- . System 2000 fixturing is being presented by Account Managers and Sales Representatives, both individually and in tandem with existing R. J. Reynolds fixturing.

VII. SALES SERVICES

Shortages cycle to cycle continue to be identified. Most recently, we lacked sufficient quantities of Cambridge headers, Virginia Slims Ultra Lights cards, BV cards and Cambridge posters. Delinquent shipment reports have been submitted on all delayed items.

2043945431

SALES SERVICES (cont'd)

We continue to find a need for Cambridge Full Flavor carton rack labels as, to date, we have not received ordered quantities of this item.

Although not significant, it is noteworthy to report that recently Territory 51-07-02, normally receiving point-of-sale material in Laurel, Mississippi, was for no reason receiving all of his shipments at Hattiesburg, Ms. When we inquired, we were advised to complete a SPAN on the individual to assure correct shipments. A SPAN was submitted.

Audits within the Section indicate slight slippage in Plan A and Plan B areas as a result of recent introductions and promotions. All problems have been addressed at respective independent or chain levels and overall audit results indicate that our B program has a compliance rate of 93%. Plan A compliance also suffered during this period, but has rebounded to the 95% level.

VIII. SALES DEVELOPMENTS

No comment at this time.

IX. MEDIA DEVELOPMENTS

No comment at this time.

X. ASSOCIATIONS & CONVENTIONS

Our recent level of involvement in extraneous activities has been at a level greater than that of years past. Philip Morris personnel are becoming more comfortable in this environment and, in many cases, find themselves on a par with R. J. Reynolds at some events.

Most recently, we were invited to attend the Stacy Williams trade meeting involving an outdoor barbecue and bird hunt. Area Manager Rusty Boone and SHA Jack Bowell attended and had the opportunity to discuss our business with Mr. Ed Begley, owner of Stacy Williams/Columbus, Ms., as well as David Majors, owner of Fred's stores in Meridian, Ms.; Harry and David Sanders, owners of Sanders Oil Company/Columbus, Ms. and Mr. Bruce Hansen, local State Representative of Lowndes County Mississippi.

ASSOCIATIONS & CONVENTIONS (Cont'd)

During the meeting, the opportunity arose to discuss legislation with Mr. Hansen. Both Rusty Boone and Jack Howell found Mr. Hansen in agreement with their point of view that any further taxation would be detrimental to our industry and, as he is a friend of local distributors, he is opposed to this legislation.

XI. SSM MISCELLANEOUS COMMENTS

The New Orleans City Council recently considered a proposed signage ordinance that would substantially reduce our ability to place exterior signage. I have attached a complete overview of the ordinance in the Region copy of this report.

In view of such ordinances in not only New Orleans, but in other cities throughout the Section, I would recommend that we pursue the possibility of alternative signage methods, at least in the key chain sector in our major metropolitan areas.

Regardless of our status in accounts such as Time Saver, A&P, Winn Dixie, National, 7/Eleven, McCarty-Holman and Sunflower stores, a signage program could afford great opportunities to improve our competitive position and our visibility.

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2043945434

I. MARKETING CONDITIONS

The overall market conditions in Section 52 continue to decline. Industry volume is down approximately 4.5% which can be attributed to a continually weakened economy that exist as the result of the oil community. As revenues have decreased from oil and the residual support industries, both Texas and Oklahoma have instituted increased taxes on cigarettes which has placed the average carton of cigarettes well above \$11.00 in both states that comprise Section 52. As incomes deplete and taxes increase on our products, the issue of smoking becomes an economic decision on the part of the average consumer. Quit, reduce consumption or switch to a less expensive brand. We believe we have a mixture of all throughout the Section, which is effecting PM unit growth. To date, Section 52 is down 4% with share growth +.6%. Share growth is being delivered by Cambridge.

Marlboro has experienced a .2% share growth over last year, however, unit sales are down approximately 6%. Although Marlboro appears to be experiencing less unit decline than average, the product is being attacked heavily on all fronts by our competitors. RJR is placing primary emphasis on the 4 major Winston packings with a B3G3F and Kooler Cup promotions, which are receiving excellent consumer trial, and in addition, placing \$2 instant redeemable coupons on cartons of the product.

Our recent introduction has fueled short term unit flow into the market. However, we believe the only long term unit gain we can expect is from the introduction of Cambridge - Full Flavor.

Cambridge Full Flavor has been introduced at the proper time. However, due to the rising priorities of V.S. Ultra Lights and B&H Lights Box, Full advantage of this extension has not been realized and evidently won't be, if the recent coupon allocations are indicative of our support for Cambridge.

Basically, we are being battled heavily on all fronts:

1. Rising anti-smoking activities at the local level
2. State tax increases
3. Heavy competitive campaigns to increase units regardless of profits
4. Declining economic indicators

When you tie these factors into our sales force being barraged by new brand introductions that deliver short term units into the system, we have quite an uphill battle to fight.

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Our emphasis should be in two areas:

1. Marlboro
2. Cambridge

We need to deliver a long term promotional program on Marlboro to tie up retail inventories and space stabilizing the Marlboro family.

Deliver a surmountable attack on the price value business head to head with Doral.

1. Cambridge B1G1F in sufficient quantities (.5 of industry shipments in 2F1's.)

2. \$2 coupons on all Cambridge products in sufficient quantities for 2 month's activities.

II. MAJOR COMPETITIVE DEVELOPMENTS

American -- Pall Mall Filters (King and 100's) - Overall the extension launch is poor at best. The major promotion is a B1G1F with units shipped being similar to our shipments of VS Ultra Lights 2F1's. American is having a hard time getting the product to retail to coincide with their limited advertising. In addition, American reps are placing \$2 store coupons on the product.

Malibu sales are very poor. At this point, retailers are beginning to drop the product, i.e., Brookshire dropped the product due to slow movement.

Pall Mall Filter Promotion - If the retailer orders 2 cartons of Pall Mall Filter and 2 cartons of Malibu, the retailer will receive \$4 from retail sales rep. This promotion is being received excellently from retail. The consumers, however, are not purchasing these products.

Overall, American's share and unit growth continue to decline in North Texas and Oklahoma. Street rumors have emerged that American is going to increase their sales force by 10 to 20% after the first of the year. This action is to place their sales force in a more competitive position.

Brown & Williamson - B&W continues to emphasize Richland, month to month. Currently they are utilizing a 2F1 on Richland paying the retailer .05 per unit to display, with a maximum of 80 units.

Brown & Williamson share has stabilized as a result of their continued promotions on Kool. Currently they are promoting Kool with 2F1's on all packings as well as \$2 off coupons on all cartons.

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The local B&W DM has stated that they are preparing to launch Capri nationally as early as November 1, 1987. It seems that the major hold on taking this product nationally is the proper machines to manufacturer the product.

Lorillard -- Current activities centered around Newport. Primary promotion is B1G1F. At retail, Newport activities are directed at Kool and that seems to be where the consumers trying Newport are coming from. Retail reports reveal B&H Menthol is not effected by Newport emphasis.

Overall, Lorillard share and unit sales are declining at a rapid pace. On a 12 month moving average, Lorillard is #6 with a share of 3.2.

Liggett & Myers - Limited activity on full margin at retail. Currently promoting Eve through a retail incentive cigarette case attached to cartons. In addition, \$2 coupons are being attached to L&M, Lark and Chesterfield.

In the price value market, Liggett is being effected tremendously. They demonstrate a continuous loss in both share and unit sales and are demonstrating at retail that they cannot recover. The battle in price value is between Philip Morris and R.J. Reynolds.

R. J. Reynolds -- Currently, R.J.R. is demonstrating a definite unit gain drive regardless of profits. As we can best summarize, R.J.R. is consistently shipping .5 of industry into key areas in 2F1's or similar programs, i.e., Consolidated, Oklahoma City, R.J.R. has averaged shipping 550 cartons per week of 2F1 product during the last 13 weeks, primarily Camel. The same holds true with distributors in the Dallas/Ft. Worth area. They have just finished a similar promotion utilizing Winston B3G3F, in the Dallas/Ft. Worth market. These promotions are being utilized in key pack outlets that demonstrate the ability to move the product in a 5 day period.

Currently they are utilizing a can holder with a 2 pack purchase to sequentially capture these consumers and a Buy 2 get a lighter free. Both the can holder and the lighter feature NFL teams.

In larger supermarkets, they are offering the retailer .25/ctn. on orders of 240 cartons of their product and couponing these products with \$2 off coupons.

Currently they are introducing Winston Lights Box utilizing a 2F1 promotion. RJR sales reps are distributing Winston Light Box sample 20's at 20 per day. In addition, in black accounts, they are utilizing Salem B1G1F in 40-120 unit displays.

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Doral - activities have been lessened on Doral to enable the sales force to institute the product give away programs at retail and allow a reading of the sales that can be generated by Doral with limited promotional support. Currently, RJR is applying 50¢ coupons on Doral on a very limited basis.

All in all, RJR has put together a very straightforward unit growth program that is having an effect on the marketplace

13 week program Winston - B3G3F - \$2 coupons
.5 industry sales (est)

13 week program Camel - B1G1F - \$2 coupons
.5 industry sales (est)

13 week program (Ethnic) Salem - B1G1F, \$2 coupons
.25 industry sales (est)

240 carton IMP Retail
IMP Wholesale
\$2 coupon on all products except Doral

It is evident that RJR is regionally developing sequential programs that develop definite results. Unit gain and consumer trial.

May/July - **DFW** - Winston B3G3 General market, select high volume pack outlets

Salem B1G1F, Black market, select high volume pack outlets

\$2 off coupons select high volume carton outlets

Light emphasis on Doral, \$1 coupons

OKC/Tulsa - Winston B2GL (NFL Lighter). Heavy coverage on Doral \$1 coupons.

July/

Present- **DFW** - Introducing Winston Light Box B1G1F

Camel B1G1F, General market.

Salem B1G1F, Black market, select high volume Winston can holders (all accounts participated in B3G3F)

\$2 off coupons select high volume carton outlets

Doral, limited activity

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OKC/Tulsa - Introducing Winston Light Box B1G1F

Camel B1G1F, General Market

Winston NFL can holder, accounts that participated in

Winston B2G Lighter (NFL).

Doral, Limited activity.

As you can see, RJR is running regional and area sequential programs to drive unit growth.

III. TRADE CLASSES

Convenience/Gas -- The trend in the convenience/gas category is towards food service. The convenience operators view restaurants as a major competitor for the moving consumer. The idea, if the consumer is making a decision to stop make it a convenience store. (This is brought out in the recent 7-Eleven commercial targeting McDonalds.)

The convenience operators are viewing generics and price value products with a favorable eye. They see this category as another avenue to impact their supermarket competitors. With most of our convenience stores reducing their carton prices to draw in the supermarket customers, the price value products will be a natural success story.

To take advantage of this trend, we recommend a "Cambridge sold here" sign, similar to the "Marlboro sold here".

Drug -- The trend in the drug stores is to diversify their product line to compete with the mass merchandisers. In the drug accounts that have done this, cigarette sales have stabilized and shown an increase. In the Drug stores that follow the traditional, Drug, Health and Beauty Aid format, cigarette sales are dropping rapidly.

Supermarkets -- The main emphasis in supermarkets is to diversify their categories while limiting selection within categories, i.e., adding video, cosmetics, seasonal items. This is effecting our progress to build larger departments because it cuts against their basic philosophy to improve their operation.

Distributors -- The main concern being voiced by our small independent distributors is the wholesale clubs. The wholesale clubs are selling cigarettes below cost which results in small retailers (the distributors main source of revenue) purchasing their best selling products (Marlboro, etc.) from the wholesale clubs, resulting in sales losses for our distributors.

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Their concern is whether we are going to continually treat the wholesale clubs as retailers or as wholesalers.

Our distributors are beginning to address the new brand issue, and holding the cost of slow selling products, through eliminating the slower selling products from their inventories. They are beginning to study the format of the wholesale grocers that charge stocking fees on new products as an avenue to offset the holding cost, i.e., \$1200 for each new line number, or drop a product to acquire that line number.

IV. SSM KEY ACCOUNT CONTACTS

Skagg, Ponca City

Contact: Don Petty
Ron Wangsgard

Accompanied SAM, Gary Thornton and National Accounts Manager, D. Lindbloom. We discussed new brands, fixture removals and Skagg's proposed structure organization. Brands were accepted through the outside suppliers and fixturing is being further developed.

Farha Tobacco

Met with Owner and presented B&H Lights Box which was accepted.

Farha Vending

Met with principal, discussed vending opportunities. We plan to represent our proposed load plans.

Fleming, OKC

Contact: Dick Keeney

Discussed with Dick and Advertising Director, Mark Harsha, our participation in the Virginia Slims of Oklahoma concerning extra promotional activities in the IGA stores. I have followed up with New York.

Safeway, OKC

Met with all principals including Vice President, Don Phillips. We discussed our proposed PM fixture placement. Many elements were discussed and certain follow-up is being conducted with New York.

Southland Distribution

Contact: Gary Geiser

Accompanied SAM, Jerry Bristow on his first call. Presented new brand which was accepted.

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Grocery SupplyContact: Pat Goggins

Accompanied SAM, Jerry Bristow. Presented new brands which were accepted and also submitted prebooking forms.

George WholesaleContact: J.J. Saleih

We discussed many problems facing the distribution industry.

Furrs, LubbockContact: Joe Self

Accompanied SAM, Jerry Bristow on his first call where we presented B&H Lights Box, pending.

McCarty CurtisContact: Jerry Fiel

We discussed the business environment, reviewed his operation and discussed 2F1 opportunities.

Grocery Supply Manager's Meeting

Accompanied SAM, Jerry Bristow on this Grocery Supply outing. We were the sole tobacco distributor in attendance. We presented the business review for wholesale grocers and discussed various opportunities for Cambridge.

Tobacco SalesContact: David Hirmon

Met with David and discussed various sales opportunities, reviewed stock and reviewed his sales figures for both PM and competitors.

SAM CONTACTS

SAM, Gary Thornton

SkaggsContact: Ron Wangsgard

Presented VS U.L. and B&H Box - accepted. Discussed structure and carton fixture removal.

Fleming, OKCContact: Dick Keeney

Discussed VS Tennis and Series 2000 show. Both pending.

Safeway, OKCContact: Mary Adamson
Bob Israel

Discussed series 2000 proposal. Pending. Had lunch with Don Philips and Max Raydon.

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ScrivnerContact: Steve Harvill

B&H Lights Box, accepted. Discussed market trends with Noel Saubers.

Safeway, OKCContact: Mary Adamson

Continued Series 2000 discussion. B&H Box accepted with J. Paddock.

Fleming, OKCContact: Julie Cox

B&H Box, accepted. Ran store bulletin at Julie's request. With J. Paddock, made courtesy call on Dick Keeney.

Winn-DixieContact: Robert Cox
Paul Sabattus
Mike Adams

Presented B&H Box, accepted. Discussed EMC, pending.

Fleming, Ft. WorthContact: Rick Pickering

B&H Box, accepted.

Fleming, Ft. WorthContact: Wayne Epperson
Sonny Sanchez
Mark Gage

Accompanied by Charles Finch, discussed Wholesale Clubs, shipping and ordering problems.

SAM, BARBARA LYNCHTrinity DistributorsContact: Buster Hayes

B&H Box presentation, accepted.

MinyardContact: Manse Millican

Presented B&H Lights Box, pending.

KrogerContact: Mike Williams

Presented B&H Lights Box, accepted.

MAPCO PetroleumContact: Rick Staley

Presented B&H Lights Box, accepted. Rick informed me that McLane Southwest will no longer be distributing to their Texas stores. Berry-Barnett will now be the distributor in that area.

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Quik TripContact: Rodney Lloyd

Present B&H Lights Box, accepted. Obtained authorization for our BG and BV displays.

SAM, JERRY BRISTOWFurrsContact: Joe Self

Presented B&H Lights Box, pending. Signed BG and R contracts for Albuquerque division.

Southland DistributionContact: Gary Geiser

Discussed B&H Lights Box which he will wait for orders from 7-Eleven divisions.

Grocery SupplyContact: Pat Goggins

Presented B&H Lights Box, pending. Discussed pre-booking policy and also advertising new PM brands in order book.

7-Eleven, North TexasContact: David Pinter

Presented B&H Lights Box, pending. Also discussed double security shield payment.

Tom Thumb, DallasContact: Alva Ferguson

B&H Lights Box, pending. Discussed EMC and gained OK from Alva to go to Jack Garrettson to present EMC.

V. MERCHANDISING PROGRAMS

A-1 - The flexibility of paying cash for these displays will definitely enhance our ability to capitalize on opportunities. To add to our effectiveness we recommend that a multi-purpose floor bin be developed that will hold 30 cartons with a standard header card that a poster can be placed on. This would enable us to be prepared for all opportunities and circumstances that arise during various promotions.

Plan A - Through August we have gained 4,000+ rows utilizing the new contract, placing 40 supplemental merchandisers. The SPACE Trek requirement of 50% Marlboro rows is creating confusion and is impractical to implement.

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Plan B - Penetration in all retail outlets is 46%. Opportunities are being reviewed by sales personnel and management at this time with our objective being 50%+.

Headway has been made with most of our accounts this year. Texaco is in the process of authorizing an M-4. APSI is in the process of upgrading, target set for 4th quarter. Loves has demonstrated a positive response to the B-4. Red Coleman Liquors upgraded from B-2 to M-4 prime.

BV/BG - The BV has proved to be an excellent tool to effect more sales of Cambridge. Wherever we have Cambridge on a BV display, we outsell other price value products 2 to 1. Quantities allocated have finally reached demand, which will assist us in gaining additional locations.

Overall compliance of our B displays is good with the exception of 7-Eleven. Compliance problems in 7-Eleven result due to the size of our display and the items commonly displayed in 7-Eleven stores such as the MDA collection jar.

Supplemental Merchandisers (AV/AM) - The sales force continues to penetrate our accounts utilizing these contracts. An area of concern is the AM. The small retail outlets do not see the display as a benefit as we had predicted. The pilferage issues surface continuously while trying to sell this program.

Plan R - Nothing new to report.

PM Carton & Package Fixtures - To date, we have 26 locations for the system 2000 in influential independent supermarkets. In addition, EMC's have been ordered for each of these accounts.

The Safeway proposal is still pending. SAM, Gary Thornton continues to press Safeway for placement and is making excellent progress.

VI. SECTION ACTIVITIES

In August we cycled 65 of 80 territories at 90%+. The unusually low cycling was due to vacations, vacancies and merchandising responsibilities. However, there were 6 territories that cycled below 75% which the Supervisors are following up on.

During the 8th cycle our call rate was 12.0 daily, 14.3 max.

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The CIP program continues to be a very useful and beneficial tool for the sales rep, that we are not taking total advantage of. During August we averaged utilizing 7.6 per day with our objective being 8.5. This represents a .8 increase over the previous cycle.

VII. SALES SERVICES

The new "Planning Desk" has had a tremendous amount of usage by the Section. The "freelance" program has proven extremely beneficial in preparing presentations and graphic analysis. Customer Trak and DPP has been helpful, however, is not used continuously. The SPACE command package is tremendous in concept, but only allows analysis and make up of a one rack situation. One of our major avenues is to present multiple racks in a store and the flexibility to graphically present this would be helpful.

We would like to request a spread sheet on key accountabilities to be developed for our manager's use, to be able to track trends over a 12 month period. WAR, TAR, RAS, etc. are good reports, but it takes a tremendous amount of our manager's time to track these in a viable trending format.

VIII. SALES DEVELOPMENT

The SPACE TREK meeting materials were excellent. The program was well received by all attendees and I believe will be a success.

The SPACE TREK program is a tremendous idea and will definitely assist the Section in gaining the inventory/rows that is needed for us to do business. We do have some problems with the program:

1. Marlboro 50% of rows - this requirement is excellent in concept but absolutely impossible to implement in many situations. If a sales rep has 90 rows of product on the primary merchandiser, 45 rows of Marlboro and the opportunity to place a 7 wide value center (28 rows) featuring Cambridge and Players, he must then gain an additional 14 rows of Marlboro on the primary fixture. This is one of many possible scenarios that result day to day in the field, which indeed makes it very difficult to implement the 50%.

2. We have had a number of accounts in the past 3 months change to non self-service. Forty Skaggs Alpha Beta and several independents. These will be rows when accumulating totals that will not exist, so the Section is penalized for something we have little control over. We would like to have feedback as to the overall disposition of situations such as these as they effect our objectives.

IX. MEDIA -- No new developments.

X. ASSOCIATIONS AND CONVENTIONS

Grocery Supply Manager's Meeting -- Philip Morris was invited to participate in their Manager's meeting where we were allowed to present a business review, Philip Morris' philosophies and programs, opportunities, and profit improvement programs.

We supplied golf balls and golf prizes for their golf outing which was extremely well received. We were recognized for our commitment to their organization. This meeting offered SAM, Jerry Bristow and myself a rare social opportunity to discuss objectives with the Chairman of the Board, Mickey McKenzie, Vice Chairman of the Board, Mike Mize and President, Steve Shing.

We were also able to visit with all house managers in order to discuss their products and programs applicable to our business.

OIC Reception -- As a member of the board, I attended the OIC Reception where approximately 400 were in attendance. Attendance included several councilmen, civic leaders and key representatives from business leaders including IBM. We were well represented by Region Director, Charles Finch and Asst. Region Director, Jim Paddock.

We made key contacts with front runners and future councilmen races that are sympathetic to our industry as well as the leaders of the school board that are willing to work with us to defeat the smoking issue at the workplace at the public school system.

We were recognized for our involvement in the community and received a plaque honoring our participation in OIC.

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I. MARKETING CONDITIONS

The Section's economy continues to show signs of a slow improvement even though spotty, especially in the area of employment. There appears to be an increased confidence in most cities because the industrial sectors have somewhat stabilized, according to some economists.

The economy is predicted to continue its improvement according to some reports because there will continue to be a slow rise in employment as the number of people leaving the state begins to decline. In Houston alone, the loss for the year is predicted to be 0.8 percent, half of last year's 1.6 percent loss.

Houston's oil and gas, manufacturing and construction industries have stabilized and consequently the "ripple effects" from earlier job losses in the sectors should continue to fade. The state's total personal income will increase by 2.0 percent for the year which is about the same as last year's 2.1 percent increase. Showing a similar pattern, per capita personal income is predicted to grow at about 2.9 percent. Overall purchasing power will increase as prices for consumer goods continues their modest rise.

New BrandsCambridge Full Flavor

Cambridge Full Flavor continues to show excellent potential. The apparent success of Cambridge Full Flavor has also helped the total Cambridge family improve distribution, inventory levels and visibility throughout the Section.

Movement of Full Flavor as well as Cambridge Lights through wholesale and retail has been good. Area Managers did an excellent job of forcing out product. We continue to need additional visibility.

Distribution levels continue to improve each week. Inventory levels continue to be a priority of all members of the sales force.

Retailer and consumer acceptance of the Full Flavor has been very good. Two-for-ones have been an excellent promotion. The 25¢ off was also received well by both the retailers and consumers.

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Virginia Slims Ultra Lights

All aspects of the brand introduction have been successful so far. The product has been received extremely well by headquarter accounts, retailers and consumers.

Media support has been excellent. Sales Representatives have done an outstanding job of pre-booking. The two-for-one program is very effective in creating trial and sales. Sampling program, sample 6's with coupons and additional CIP's give us excellent tools to sample consumers.

B & H Lights Box

Unlike Virginia Slims Ultra Lights, B & H Lights Box has not been accepted as well at the headquarter account level. All distributors and wholesalers have accepted the brand, but several chains are still pending: Safeway, Brookshire Bros., Texaco and Sigmor Houston. Follow-up is continuing by all responsible managers.

Sales

Total sales for August were down -5.6% and -6.0% year to date. Total Marlboro was down -10.1%, down -5.4% all packings year to date with only Marlboro Lights 85's Box and Marlboro Lights 100 Box showing an increase.

Merit remains very soft with only the two Ultra Regular packings showing a gain year to date.

Total B & H 100's for August was down -.4 and remains down -8.2 year to date.

Total Virginia Slims, because of Virginia Slims Ultra Lights, show a 16.8% August increase but still remains down -3.6% year to date.

Cambridge, because of all the promotional activities, continues to show improvement.

Total Section share of market increased from the first quarter (42.94) to the second quarter (44.54). The latest four quarter average share is 44.19.

According to Geographic Volume Reports, second quarter 1987, the Section's volume has decreased -4.9 and the industry percent of change was -5.3 during this same time period.

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II. MAJOR COMPETITIVE DEVELOPMENTSAmerican Tobacco Company

Malibu distribution is good with sales being helped by the 30¢ coupons attached to packs. Malibu Value Centers are appearing in many major outlets. The centers are white plastic and have three to five shelves which hold an inventory of 15 cartons each. Cartons are couponed with \$3.00 coupons. Luckies are also on these racks with \$2.00 off carton coupons.

<u>Coupons</u>	Luckies	\$2.00
	Pall Mall Filters	2.00
	Malibu	3.00

American Tobacco is being sued by Model Markets because American cancelled Model Market's contract and then attempted to persuade the other tobacco companies to do likewise.

A new Division Manager has been assigned to the Austin area which was previously worked out of San Antonio. The new division will cover Waco and College Station also.

It has been reported that the Sales Reps are going to begin using mini vans and that their consignment fund will be increased to \$8,000.

Brown & Williamson

Fiesta and Raleigh Con Filtro are being discontinued. Sales Reps are attempting to move the 100 case inventory out of the Louisville warehouse by offering the products on a two-for-one deal, mostly in Hispanic markets.

The offer of one carton free with a ten carton purchase of Kools is still being extended to retailers.

Viceroy, Raleigh and Belair in special cartons with \$2.00 off a carton printed on them are being shipped to the wholesalers. The packs in these cartons have 20¢ off a pack printed around the top of the pack. The Reps are apparently reimbursing the \$2.00 at store level.

<u>Coupons</u>	Falcon	1.00
	Kool, Kool Milds	2.00
	Barclay	2.00
	Richland	2.00

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Liggett & Myers

Rainbow brand cigarettes are being manufactured exclusively for I G A stores. This name is used for many of I G A's package goods.

Total is not moving well and retailers have been heard to say that the brand is "a Total loss".

<u>Coupons</u>	Eve	\$2.00
	Lark	2.00
	Quality Seal	1.00
	Rainbow	1.50

P. Lorillard

Lorillard and M & M Candy have a counter display that features candy and cigarettes. According to reports, M & M pays the wholesaler \$10.00 a quarter to place the racks in the stores. Wholesalers sell the racks to the retailer, coordinate the placement with Lorillard Reps. Payment to the retailer for the display placement is at the discretion of the wholesaler.

It is reported that True Gold has been discontinued and the Sales Reps are reported to be picking up the product and informing the retailers of this.

<u>Coupons</u>	True	2.00
	Kent	2.00
	Newport	2.00

Two part-time samplers have been hired to work a Newport sampling program in the Beaumont/Port Arthur area.

R. J. Reynolds

Offering 25¢ off cartons of pre-booked Winston, Salem and Camels with a maximum order of 180 cartons.

The price of Magna has reportedly been increased to sell for the same price as branded cigarettes. Sales have slowed since the two for one offer was discontinued. They are placing 50¢ off coupons on units of two packs.

Doral coupons have reverted back to \$1.00. However, only 15% to 20% of product is being couponed.

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<u>Coupons</u>	Century	\$2.00	
	Winston	2.00	
	Salem	2.00	
	Camel	2.00	
	Vantage	2.00	
	Doral	1.00	(some 50¢ coupons are still attached)

Sales Reps are going to stores and attaching coupons based on competitive sales. If their sales do not match the competitions', they coupon product to increase sales in that particular account.

R. J. Reynolds is replacing many of their old racks with their flex system. A Sales Rep informed us that R. J. Reynolds has reduced their budget on P.O.S. items and fixtures. According to this Sales Rep, they no longer offer fixturing such as overheads to package convenience stores.

R. J. Reynolds has reportedly reduced hours for part-time merchandisers for the balance of the year.

We continue to hear about terminations of Nabisco Reps. According to reports, four Nabisco Reps in Houston have been terminated and are not being replaced. This seems to lend credence to the rumor that R. J. Reynolds Reps will begin to promote Planters Peanuts and Lifesavers in addition to tobacco products.

III. TRADE CLASSES

Direct Wholesalers

Direct wholesalers made up 78.6% of total Section sales, down 6.7% year to date. Inventories are now leveling out from the increased buying as a result of the last price increase activities.

Inventory levels are very high in many of the houses because of the anticipated state tax increase October 1st. Because product will not be taxed at the retail level, efforts are being made by most wholesalers to force product out to retail. The more retail program we can have will aid in eliminating the possibility of overstock at retail.

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Huntsville Wholesale, Huntsville, Texas

This account is obviously having grave financial problems. We almost had to repossess all of our product. The account was closed by the local constable Tuesday, September 22, 1987. The owner reports that there was a misunderstanding between their lawyers and the bank. There were some problems with improper papers being completed. The last word is the account is now continuing in business.

Telephone Road, Pearland, Texas

This is account is now B & G Telephone Road. Sale was completed August 19, 1987. All product will be purchased through B & G on Berry Road and shipped to Telephone Road. Essa Baba will operate this house. He kept all of the employees from Telephone Road's operation for business continuity.

All Brands, Houston, Texas

Year to date sales are down -12.1%. They are currently in the process of installing a complete in-house computer system whereby inventory (cigarettes and other merchandise) will be completely computerized by scanner. According to John Ganim, this will greatly facilitate and speed up order taking procedures and inventory control. This should help eliminate any potential O.O.S. on cigarettes. John anticipates system being operational by the end of September.

Groce Wearden, Victoria, Texas

The name of this account has officially been changed in records to "Schriener/Groce Wearden Division". Groce is down -16.4% for the month. This is the sixth time this year that they have been down. Our brands are down except Cambridge family which is up +138% for the month. This account accepted all Virginia Slims Ultra Lights packings because its number one account, Super S Stores, bought the product. This account continues to order sparingly. In spite of the consistent down sales periods, Groce Wearden is only down -3.7% year to date.

Direct Distributors

Direct distributors made up 25.8% of total Section sales, down 12.9% year to date and down 12.5% during the second quarter.

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Direct Retailers/Supermarkets

Direct retailers continue to account for 17.9% of total Section sales, down 3.3% year to date but up for the second quarter 2.4%.

Warehouse Grocery, San Antonio, Texas (8)

This account currently has 22 stores in its chain but is selling cigarettes in only eight stores. Warehouse will open its 23rd store by the middle of September and it will handle cigarettes.

M-System, San Angelo, Texas (16)

Area Manager Juan Rosales, Carl White and SHA Allen Bishop hosted a System 2000 dinner for M-System's buying committee on Tuesday, August 25, 1987, at the Days Inn in San Angelo, Texas. They had some of our System 2000 fixtures put together at a local hotel and invited the buying committee of M-System to join them for a dinner and System 2000 presentation. This type presentation was accepted very well by M-System. It gave them a chance to look at and shake the rack personally. One of the first comments they made was that the System 2000 rack looked a lot better in person than on the brochure.

Due to this type of presentation, the team was able to get M-System to accept our System 2000, Electronic Message Center and our six foot maxi overhead for four of their stores. All of the four stores were previously non-self service. Three stores are in Abilene, Texas and one store is in Del Rio, Texas.

Kroger, Houston, Texas (92 stores)

While working the Kroger trade show September 21 and 22, S.A.M. Pat Reynolds was able to get 60 store managers to approve the Philip Morris message center for their stores. One Zone Manager (San Antonio) approved the unit for all of his stores. A follow-up by Pat will finalize decision in the next few days. All 92 stores are expected to be approved in the very near future.

Convenience/Gas

This trade class accounted for 3.5% of Section business, down 18.1% for the year and down for the second quarter, 14.9%.

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Lone Star, San Antonio, Texas (69)

This account has made buyer Dan Niewierowski a full time employee. He previously had been part-time. Lone Star has currently been having financial difficulty. It has recently closed one of its stores that opened less than a year ago. R. J. Reynolds has placed a new wraparound counter display.

Triangle Refineries, Houston, Texas (35)

Bill Miller accepted presentation for M-4 Prime and BV displays in all 35 of his convenience outlets which range from McAllen through Tennessee to Florida. Previously we were maintaining only seven M-3 displays. He also accepted force shipments of ten cartons each of the new Virginia Slims Ultra Lights and B & H Box for distribution to all of his stores.

Direct Drug Stores

Drug stores account for .8% of total Section business, down 22% year to date and down 17.9% for the second quarter.

Direct Vendors

Direct vendors accounted for only .4% of the Section's business, down 4.7% for the year but up for the second quarter 6.7%.

Mass MerchandisersK-Mart

This account has decided to remove all value brands from their stores with the exception of Dorals and a private label brand called "Austin". This brand is being made for K-Mart by Forsyth Tobacco Products, a subsidiary of R. J. Reynolds. According to a memo sent to all stores, all competitive product must be removed from the K-Mart stores by the end of September.

Government

This trade class accounted for 3.2% of Section's total business for the year, down 5.7%, up for the second quarter 1.5%.

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IV. SECTION SALES MANAGER KEY ACCOUNT CONTACTSAccountContact

H. E. B.
San Antonio, Texas

Doug Macey, Buyer/Mdsr.

S.A.M. Pat Reynolds and I made initial contact with this account on September 7 where we presented our new Plan A and System 2000.

The result of the contact was a very favorable response to a dual carton rack proposal which would eliminate Philip Morris' present row gap. Doug Macey also commented that he felt that Philip Morris had not been given equal opportunity to place fixturing in their stores in the past and that he felt that was a result of some wrong decisions being made and that if we worked with him, the situation would change.

Our Inventory Maintenance Program couldn't have come at a better time because Doug had expressed a desire to have such a program. On a follow-up visit, Doug participated in the program fully.

Pat and I plan a follow-up on October 11 on Plan A and Philip Morris fixturing.

Doug also expressed concern about other principals within the H.E.B. operation wanting to convert to non-self-service. We committed to assisting in any way possible. He suggested we meet with H. E. B.'s head of security which we plan to do.

I also met with Bill Taylor in the Accounting Department where I discussed DPP and presented him with printed information regarding same. H. E. B. is expressing more and more interest regarding DPP. I plan a follow up with Mr. Taylor in the near future.

Kroger
Houston, Texas

Harold Wallace, Director of
Merchandising
John Rich, Assistant Dir.

The purpose of our visit (S.A.M. Pat Reynolds, Joe Reed and I) was to present Plan A and System 2000. Both Harold and John were very receptive to our proposal but stated that their major immediate concern was trying to sell store managers and zone managers on keeping cigarettes merchandised self-service. Both asked our help in working to solve this problem.

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Since the meeting, S.A.M. Pat Reynolds and I have contacted several store managers and zone managers. We will continue to gather information and facts and work up a proposal and will report back to Harold and John with recommendations.

During this reporting period, Pat and I also participated in the Kroger Trade Show where we secured 60 store managers' signatures authorizing EMC's in all 60 stores. We will now follow up with zone managers to get final approval.

Sigmor
Houston, Texas

Jeff Seegar, Buyer/Mdsr.

S.A.M. Pat Reynolds and I spent one full day auditing Sigmor stores to identify opportunities. Overall condition of the merchandising agreements was good.

There have been many reports of low inventory in Sigmor stores, but upon investigation, we found that now that this account is being serviced by McLane and because of a new computer ordering system, there has been a tremendous improvement in the inventory levels.

The two most obvious opportunities identified during our audit were possibly an AV fixture and adding additional overhead racks. Follow-up is planned for October.

S.A.M. Steve Wilkinson's Key Account Contacts and Account Update

S.A. M. Steve Wilkinson made the following calls with results as indicated.

N. C. S.
Houston, Texas

Elaine Kennedy, Corporate
Buyer

Elaine Kennedy has authorized Virginia Slims Ultra Lights in all Stores. Additionally, Elaine has authorized placement of two for one displays beginning September 28, 1987 and the two with lighter display to follow.

Circle K Central Region
Houston, Texas

Bob Austin

Bob has authorized both Virginia Slims Ultra Lights and B & H Lights Box in all locations. McLane is sending out ten cartons of each packing per store and will be going with both the two for one displays and lighter display on Virginia Slims as well as B & H two for one in November.

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We are continuing to try to coordinate new placements of AM racks in Circle K. We will begin placement approximately October 5. We are waiting for further details from New York on overhead and clock placements.

7-Eleven Lone Star
Austin, Texas

Darrell Neal, Buyer

Darrell has authorized both Virginia Slims Ultra Lights and Benson & Hedges Lights Box and will be making a 20 carton distribution on Virginia Slims Ultra Lights and a 10 carton distribution on Benson & Hedges Lights Box.

With regard to AV rack placements in stores, as of our last conversation, Darrell planned to check on the possibility of his people painting several of our AV fixtures to see how they would look before going forward.

7-Eleven South Central Div.
Houston, Texas

Art Molliver, Buyer

Art has agreed to accept Virginia Slims Ultra Lights and will be making a 10-carton distribution to all stores. Art has also agreed to take three cartons of each packing of F.V.B.

We are currently awaiting a decision from New York on whether we can proceed with 7-Eleven's proposal to place value merchandisers that Philip Morris would custom manufacture in all of their stores.

Tenneco Western Region
Houston, Texas

Steve Stewart

We are still waiting for a decision on Virginia Slims Ultra Lights and Benson & Hedges Lights Box.

Safeway
Houston, Texas

Ron Kieltyka

Safeway has accepted Virginia Slims Ultra Lights and made an initial purchase of 33 cases of each, Regular and Menthol.

No decision yet on implementation of System 2000.

Grocers Supply
Houston, Texas

Dorothy Husain

This account has accepted both Virginia Slims Ultra Lights and B & H Lights Box. Grocers Supply bought over their allocation and it is anticipated they will do so on B & H Lights Box.

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Brookshire Bros.
Lufkin, Texas

Ed Parish, Vice President

V. P. Ed Parish has not accepted Virginia Slims. We are trying to determine what the problem is. Initial meeting with Ed was very favorable to acceptance of both Virginia Slims Ultra Lights and Benson & Hedges Lights Box. The last two introductions we have had, they have not made a decision until the last day of allocation period. Then they have had to pass.

On September 25, we will be placing System 2000 carton rack in a new store in Kirbyville, Texas. We are anticipating additional placements from this test store.

V. MERCHANDISING PROGRAMS

Plan A

Chains:

Senior Account Managers and Area Managers are preparing and making presentations to assigned chains. Only one Plan A for chains is signed: M-System. All others are pending. In every case, a Philip Morris carton merchandiser was presented with a proposal on increased space on R. J. Reynolds' fixture as an alternative. Follow-up presentations are just starting to gain approval from the chains that are pending. Primary shelf requirement could slow some chain's decisions.

Independents:

Results from independents are much better because we can get to the decision-maker for immediate approval. We continue to present the Plan A to gain the 110 percent space requirement for maximum penetration in the Space Trek program. Results to date are:

New Plan A	8
Plan A resigned	72
Average rows	81
Plan AL resigned	26
Average rows	53

Plan AM - This additional merchandiser is the best opportunity to eliminate Philip Morris row gaps in Plan A accounts when System 2000 is not accepted.

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Retailer comments indicate the maximum payment of \$16.00 or \$28.00 does not justify self service cartons in some instances. However, we have not made extensive AM presentations at this point because of the lack of selling materials.

Plan AM's signed 31

Plan AV - The number of AV contracts is actually decreasing while the number of fixtures placed is increasing. This is caused by AV rows being included under Plan A. Stores with larger departments are incorporating value rows into a generic section on the main fixture which also decreases both contracts and AV fixtures. This is becoming more prevalent each month in chains like Safeway, Brookshire Bros. and Gerlands as well as independents.

Plan AV's Signed 46

Plan B/M - Chain contracts in the section have increased by 133 year to date. Independent accounts remain static. However, we have done an excellent job on prime positioning of our displays. We have increased 506 displays to prime location year to date. This is an area we continue to develop. We push prime location in every chain account.

M.I.S.T. - With the recent introductions of Cambridge Full Flavor, Virginia Slims Ultra Lights and B & H Lights Box, very little time has been spent on the M.I.S.T. program. With the balance of the year dedicated to new Plan A and new brands, we will only be insuring 50% of our space is Marlboro and working on inventory for the Marlboro franchise. We should once again resume the M.I.S.T. program in early 1988.

Vending Program

Number of accounts on Plan D	114
Number of machines	12,742
Number of accounts on Data Vend	49
Number of machines	4,295
Ride with placements to date	288
R. D. A. placements to date	0

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Philip Morris FixturingOverheads

We are still winning the war in overhead conversions. We will typically lose 12 overheads a month to R. J. Reynolds in the Houston area. Of those 12, we will get eight of them back. We will in turn convert 15 to 20 R. J. Reynolds' overheads a month of which 80% to 90% will stay.

Response time from the Region warehouse is good and, dependent on availability, we have had no problem in meeting commitments.

System 2000

We view the System 2000 as our best opportunity to eliminate row gap and create Philip Morris dominance at retail. All present Plan A's with 300+ CPW will be presented System 2000. Currently, we have 12 commitments for placement in October. Thus far, we have been somewhat selective in accounts presented System 2000. In some cases, we have already had the top two shelves of CI departments and accounts do not miss R. J. Reynolds' payments. In other cases, relatively small cigarette departments enable us to exceed payments on R. J. Reynolds' fixtures by adding the seventh shelf. Bonus payments have assisted in closing many presentations.

We have 28 stores with System 2000 fixtures in them in the Section at this time.

VI. SECTION ACTIVITIESVirginia Slims Ultra Lights

Sales Representatives - Initial pre-booking efforts gained excellent results. Conservatively, the sales force pre-booked quantities equal to twice distributor allocations. This was accomplished because of the added lead time we were provided to pre-sell accounts. Pre-booking has demonstrated value as a tool in brand introductions.

Two for one displays shipped for the September cycle have been set. Two for one product arrived at the headquarter jobbers on September 21 and 22 for the October cycle.

Good visibility is being gained through P.O.S. placements. P.O.S. that was shipped is of sufficient quantity and the graphics are appealing. It should generate trial smokers.

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Area Managers/S.A.M.'s

We are following up on the only two accounts that turned us down on this brand: Sigmor and Brookshire Bros.

Virginia Slims Ultra Lights Sampling Program

All samplers were hired and began work as scheduled. Sample 6's were received before program began, with an adequate supply having been received to cover the four-week period with samplers averaging 20 per hour. Several samplers were scheduled to work bowling alleys, restaurants, beauty salons, busy washaterias and the downtown area being covered on a weekly basis.

Virginia Slims sampling outfit sent from the Virginia Slims pro shop seems somewhat out of season for this part of the country.

B & H Lights Box

Area Managers are in full swing selling in the brand to direct accounts. All distributors have bought. Chain activity is slow. We are not getting immediate response from the chains. Almost all are still pending. We will have a firm status in our next report.

B & H Package Change

The product is working down very nicely. Most carton outlets have very little of the old packing on hand. Old time B & H customers are actually seeking out the old packing, fearing the new packing may not taste the same. This has assisted in reducing the old packing inventory. The \$2.00 coupons have been used for the most part on carton fixtures as store inventories did not warrant the 20-carton display. B & H radio displays have also been used sparingly. The B & H radio was of extremely poor quality. With new batteries, it was very difficult to pick up local stations at all.

We have received several comments that our customers think the product has been changed. They think the product tastes lighter.

Special B & H Store Sale Program

Fiesta Stores (14) - We are conducting store sales in these stores that cater to the Houston Hispanic population. These store sales are being sponsored by Benson & Hedges. The store sales are on three different weekends during September

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and October. The first store sale was held September 12, 1987. Results were poor. With the Houston market in recession, the economy in the Hispanic market is very bad. To boost sales at future store sales, we are going to add coupons to cartons of B & H to drop the price and gain additional sales.

VII. SALES SERVICES

Systems

1. Planning Desk

We get weekly messages and updates on system procedures every Monday which the MPA is supposed to review. The MPA does this as a first task on Monday mornings. The problem is that with the continuous upgrading of the system as described in the news letter, one cannot remember all the system changes. You cannot print the messages on the PUF menu message screen. It would be very helpful to be able to do this.

2. The SAM's were assigned a signon code for the MIDAS system which is good. However, we stopped short of making the SAM's more efficient by not letting them access the TSOP data screens. We should consider this as soon as possible.

3. The MPA's need a dumb terminal in their offices that can access all office systems. With all the activity from Supervisors and S.A.M.'s on the planning desk, the MPA has a need for a separate terminal in his/her office.

Fleet

We have had a Dodge mini van in territory 53-03-07 that has been down most of its street life for excessive repairs. Recently, a timing chain inside the engine went bad. The dealership said that because Philip Morris had spent so much money in repairs, they would not charge us the \$1700. they usually charge but did charge us \$240. to fix it.

VIII. SALES DEVELOPMENT

The recently developed Electronic Message Center is an excellent P.O.S. item. However, we have nothing to sell it with. A brochure exists, P.O.S. Item #30483. When this number is entered into the requisition, it says item unavailable. We have never had the brochure in the field, but it does exist because the Region office sent our Section ten of them.

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IX. MEDIA DEVELOPMENTS

Excellent coverage in Section 53 on outdoor signage on behalf of Virginia Slims Ultra Lights. Due to extremely clear skies in our Section, sometimes these light billboards are hard to see.

X. ASSOCIATIONS AND CONVENTIONSKroger Foods Trade Show - September 21-23

The Section participated in this three-day show where we sampled Philip Morris products. This trade show was attended by all Kroger managers from Texas and Louisiana. Very productive show. S.A.M. Pat Reynolds was successful in selling the Philip Morris EMC to 60 store managers.

The only other tobacco company represented was R. J. R. Nabisco and they did no sampling.

XI. SSM MISCELLANEOUS COMMENTS

Division Manager Gary Lynch reported that a Spanish language radio station in Corpus Christi (KUNO) conducts a survey twice a year. This last survey showed that 52.5% of the Hispanic population smokes, with Marlboro accounting for 20.5% and Benson and Hedges, Merit and Virginia Slims accounting for 6.5%. This survey revealed that Nueces county, which takes in all of Corpus Christi, is 48% Hispanic.

Corpus Christi has the lowest grocery prices of any market in the United States. An ongoing price battle between H.E.B. and Furrs is pulling shoppers from as far away as San Antonio. H.E.B. and Furrs have been trying to out-price each other since Furrs entered the market last fall with four Bag-n-Save warehouse stores. H.E.B., the long time market leader, has 12 stores in Corpus Christi and holds a 50% market share. Even with the price war, carton cigarettes are still higher than the convenience store prices. Bag-n-Save has affected more of the independents' carton sales by increasing the old Kroger stores' carton volume by 200+ CPW with H.E.B.'s sales showing little affect.

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